

## **FY09/3 Second Quarter (July-September) Q&A**

**1. What are the factors which caused the second quarter results to be lower than the previous estimates on July 30, 2008?**

- A. Semiconductor sales for the second quarter were 159.2 billion yen, flat compared to the previous quarter. Although we estimated to attain higher sales due to weaker yen at the previous announcement on July 30<sup>th</sup>, sales of discrete semiconductors and compound semiconductors decreased more than we expected, offsetting the favorable currency exchange effects.

For the second quarter, we recorded operating loss of 0.5 billion yen. In the previous announcement, we were expecting to attain operating profit of approximately 1.7 billion yen or more. However, flat semiconductor sales quarter on quarter and an increase in R&D expenses resulted in operating loss.

**2. What are reasons for downward revisions for the second half? Which applications are expected to worsen?**

- A. After reevaluating the recent semiconductor demand and market conditions, the revised forecast for the second half semiconductor sales are 310.0 billion yen, a 20 billion yen decrease from the original forecast. The forecasts are calculated at 105 yen per U.S. dollar and 145 yen per Euro.

Looking by application, while the SoC platform including semiconductors for Blu-ray related devices remain healthy, semiconductors for automotive application, which is one of our focused business area, are weak due to a slowdown in the automotive industry. We expect to see decrease in sales of LCD driver ICs due to inventory adjustments, and general-purpose products such as discrete semiconductors, which are affected largely by market conditions.

**3. Semiconductor market conditions are getting increasingly severe. Is the company outlook for the second half too optimistic? Will the company obtain operating profit for the second half?**

- A. The company expects market conditions to remain grim in the second half. We expect weakness in automotive semiconductors and general-purpose products, such as discrete semiconductors. Moreover, currency fluctuations may affect our business outcome significantly. On the other hand, some products such as chips for Blu-ray related devices remain healthy, and the manufacturing utilization rates of 300 mm line, the company's most advanced production line at Yamagata, are expected to remain

high.

In terms of profitability, we revised the forecast for operating income for the second half down by 7.0 billion yen. However, we will take up cost cutting measures which are expected to generate approximately 8.0 billion yen in cost reductions.

**4. What are the measures to cut costs?**

- A. The company will undertake cost cutting measures to attain operating profit for the second half of the fiscal year.

First, we will accelerate the timeline for the closure of certain manufacturing lines. We will move up the closing of 8-inch line at NEC Semiconductors Yamagata by one month to November 2008, and the 300 mm pilot line at Sagamihara by three months to December 2008.

In addition, we will improve management efficiency by reducing other fixed costs associated with manufacturing, as well as procurement costs, and improve efficiency of R&D expenses. Through these measures, we anticipate an 8.0 billion yen reduction in costs compared to the first half.